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THE TARIFF COMMISSION PLAN: ITS FACTS AND FALLACIES

BY JAMES B. REYNOLDS

IN most quarters of the United States the idea of a Tariff Commission is received with applause. But much of this enthusiasm is based upon a mistaken idea, though one that circulates with great gusto. The people really believe that by the creation of a Commission they will be eliminating politics from the tariff. There is no better slogan than "Take the Tariff Out of Politics." Nor is there any more misleading. When people are taken out of politics, when oxygen is taken out of the air, when several things of that kind occur, then there will be an absolute divorce of politics and tariff, and not before. It cannot happen before that time, for the tariff is the great economic question of the nation, and being such is something for the country itself to decide. What kind of a tariff is to be made is settled at the polls, and will be until the end of the present chapter.

There is also prevalent the idea that a Tariff Commission will settle all tariff trouble, that its influence will in some mysterious way bring together the man who regards a protective tariff as a deity and the one who regards it as a devil, and make lion and lamb lie down together in a pasture of harmony. Such a commission is looked upon by far too many people as a kind of philosopher's stone by means of which prices can be made high for those who wish them high and at the same time low for those who wish them low. It is felt that such a body could equally satisfy the wants of those who wish nothing but American-made goods sold in the United States, and those who disdain to use anything that is not made abroad. The things that a commission can accomplish, according to some of the advocates of it, make up a splendid picture, glorious in color and utopian in sig-

nificance. But, alas, such a picture possesses many of the qualities of a mirage, and vanishes into air under the sunlight of scrutiny.

This does not mean, however, that a Tariff Commission is not a good thing, that it cannot be made of real benefit to the country. It can do such and can be made such, but only with a real appreciation of its natural and proper limitations. The Tariff Commission idea, as a matter of fact, has been sadly injured and its permanent creation postponed by what has gone on in the house of its friends. It has been regarded there and proclaimed abroad as a worker of miracles, instead of being invested with merely normal and possible functions. It has been demanded that upon it be conferred the power to make rates. Many of its ardent friends have insisted that it be made like unto the Interstate Commerce Commission, and given the same power over tariff duties that that body has over freight rates. But the matter of what shippers shall pay to the railroads for carrying freight, and what rates of duty a foreign producer shall pay for the privilege of selling his goods in the American market-place, are very dissimilar things, and must be handled in totally different fashion.

It was this demand for kingly power for a Tariff Commission that hurt the cause. It aroused Congress and the American producer and the foreign importer to vigorous protest and to open hostility. Congress has never yet been in a mood to give away the tariff-making initiative and power conferred upon it by the Constitution, and there is no symptom that any such mood will come into being. It was the fear that a Tariff Commission would attempt this trespass upon its power that kept Congress from passing legislation to create any such body. Had the advocates of a commission been less extravagant in their demands, there would not have been the same antagonism to overcome.

There are those who base a great part of their enthusiasm for a Tariff Commission on what European nations do in this regard. More correctly, they base it upon what they *think* European nations do. As a matter of fact, the European tariff commission system is very different from the popular notion of it in this country, and a further important element in the case is that the tariff-making methods of the United States and foreign countries are so different

that it would be almost impossible for them to proceed on parallel tracks. Tariff-making in Europe does not involve the preliminary and basic discussion of what kind of a tariff it is to be. There is no three-cornered contest as to whether the new law shall be one for protection, for revenue only, or for that newly arrived tariff theory of Mr. Underwood's, a competitive tariff. In all the European countries where the tariff commission idea is prevalent, the one theory upon which tariffs are made is the direct and personal benefit to the country making it. Nor does a new tariff law follow upon the heels of a national election in which the party in power has been changed. Their tariffs are made to fit the needs of the nation, and are not the sequence of a political victory. Since there is no dispute as to what shall be the basic theory of a new tariff law, it remains only for those making it to do the detailed work, and to see that each industry of the nation receives fair play and just treatment.

An important difference in the tariff situation in the United States, as compared with other countries, is the very important parliamentary one. Under the procedure of most European countries, important measures are carefully prepared, either by officers of the Government or those whom such officers select, and then these measures go before the parliamentary body with the backing of the Administration and the full force of Government support. Furthermore, the original tariffs, in the case of many countries, are not intended to go into practical force, but to serve merely as a basis for the making of commercial treaties with other countries. For this reason, the part played by an Administration abroad is the one that dominates the entire tariff situation. The detailed discussion on the floor of parliamentary bodies is much less important, and it is merely a question of the Administration securing sufficient support from a parliament to secure the passage of a tariff which it has itself framed. This is, of course, absolutely contrary to the practice under our own form of government. Theoretically, at least, Congress is independent both of the President and of the Administration, although this independence varies with the years, and runs the whole scale from fact to fiction.

As a matter of fact, no country of Europe has yet established such a body as the Tariff Commission would be in the United States. There is no other nation in which an

investigation of industrial conditions, as started by the former Tariff Board with its extended examination of costs of production, has been conducted. The European method of tariff commissioning does not involve this direct and thorough system of inquiry, this sending of field agents to learn facts at first hand and at close range. The European method has been in the nature of frequent and friendly conferences with all the interests concerned, while the consumers have been represented by the government officials themselves. There is no formal governmental body which holds formal hearings, and there is no making public of the testimony that is given at these conferences.

When the last French tariff was made, it was entrusted to a commission of many members, largely made up of manufacturers of a widely divergent mass of products, and of men who would be vitally concerned in the new rates of duty. This commission spent several years in framing a tariff bill, and then presented it in its entirety as a Government measure in the French Chamber of Deputies. In Germany, there is a large committee which, in the preparation of the last tariff, was very active at a certain stage of the proceedings, and this committee is sometimes referred to in America as the German Tariff Commission. This body, however, which numbered thirty-six, was primarily an advisory body, made up of the great leaders in the industrial world, and its members were men of large affairs, working for a trivial sum per diem, and devoting most of their time to their own personal business. The assistance which they rendered to the Government in the making of the law was because of their experience as business men, not because of any special investigation which they undertook.

In Austria, in the making of tariffs, the Government receives assistance from a committee of the associated Chambers of Commerce, which attempts to straighten out beforehand the conflicting demands of the producing interests, and present to the Government a plan which has the support of the business world. This body represents, primarily, the producing interests, and is in no sense the determining factor in the making of the tariff. In both Austria and Germany, the real responsibility is placed in the hands of the officials of the different ministries. To such officials the tariff question can be safely left, in which again there is a radical difference between the situation there and

here. There are Government officials in European countries who have devoted themselves solely to the industrial effects of the tariff for a period of many years, and are, therefore, familiar in a personal and practical way with the facts regarding costs and competition in the different industries.

In the case of the United States, with the changing of officials consequent upon the incoming of the different Administrations, there is no such force upon which to rely, and, consequently, it becomes necessary to do work all over again each time a tariff law is changed. So it is not safe to transplant bodily from Europe a tariff-making system that is of value there, because of the vastly different type of soil in the United States in which tariff seeds are sown, and from which tariff bills sprout forth.

The forerunner of the Tariff Commission that is to be was the Tariff Board. That was an institution to which Congress never gave its real sanction. It did, however, relent from its spirit of antagonism to the idea of the Board's existence sufficiently to give it necessary appropriations for three years, but refused to make it a part of the governmental body. As a matter of fact, the Tariff Board was a good deal like Topsy in *Uncle Tom's Cabin*, for like her it was "never born, but just grew." When the Payne-Aldrich Tariff was passed, it contained a provision permitting the President "to employ such persons as may be required" to assist him and the officers of the Government in Customs matters. President Taft took advantage of that clause in the law to construct a Tariff Board. This Board took up an entirely new problem in the United States, that of direct and personal investigation of industrial conditions and production costs. It was pioneer work, and was surrounded with all of the difficulties attendant upon such an undertaking. What the Board tried to do was directed along three different lines:

First: To secure, as to articles in the tariff, concise information regarding the nature of the article, the chief sources of supply at home and abroad, the methods of its production, its chief uses, statistics of production, imports and exports, with an estimate of the *ad valorem* equivalent for all specific duties. This was an endeavor to follow out what President Taft meant by "translating the tariff into English."

Second: To make an inquiry into actual costs of production both at home and abroad, especially comparative costs upon the same or similar articles. This was carried on with a full realization of the fact that there are many manufactured articles of such exceptional quality that no comparison can be made between the products of different mills; but realizing also, on the other hand, that there are many standardized articles in the case of which definite results can be secured. The work along this line was planned to deal entirely with actual costs and not with hypothetical, or average, costs.

Third: To secure accurate information regarding actual prices at home and abroad, the peculiar local conditions affecting any particular industry, and the general conditions of home and foreign competition to which it is subject. This embraced both the technical and commercial sides of the question.

What the results of the Tariff Board's efforts were, and whether or not it justified itself and its existence, is a question that is not necessary to consider at this time; and the testimony of a member of it, who might naturally be prejudiced in its behalf, is not the proper source from which to gain such information. One clear result, however, was the insight that the work of the Tariff Board gave into the possibilities inhering in a Tariff Commission,—and, what is equally important, the impossibilities as well.

To the important and leading question: Is there a proper field for a Tariff Commission? my answer, as the result of three years' experience in Tariff Board work, is decidedly that there is, but that such a Commission should be founded upon a proper basis, and its work confined within its natural and proper boundaries. There is a field for a Tariff Commission, not for the purpose of determining what kind of a tariff shall be put upon the statute books of the country, but, after the country has determined what it wants, or what it thinks it wants, to give genuine and expert aid to the men whose duty it is to draw up a law in conformity to the verdict of the voters. By the use of a Commission, real inquiry at first hand into tariff problems and industrial conditions can be obtained.

The present system of framing a law as the result of a series of hearings, with the clashing of opposing forces before a committee, has elements of weakness that have long

been realized. In that particular, it is merely a question as to whether or not, under our old methods, proper provision is made by the Government for an adequate inquiry into the nature of tariff legislation and the industrial effect of each schedule. There are a great many people in the country who think that the present system of hearings is sufficient, and there is no need for either change or the creation of any new agency; but there is also a vigorous idea that some body should be brought into existence, or some agency created, which should conduct a continuous inquiry of an impartial and non-partisan character regarding tariff matters which are of vital importance to the industrial life of America.

A properly constituted Tariff Commission, with its work sanely planned and carried out, can be of great value to all branches of the Government, to Congress, and to the President. There is hardly a sphere of Governmental activity at Washington that does not need to have some source of information to which to turn on customs and tariff matters. The Executive Departments of the Government need it for proper guidance in the making of regulations and the interpretation of tariff law. Congress needs it for facts and figures dealing with industrial conditions and the tariff situation in the world in the making of new tariff laws or changes in the old. The President needs it, because it is his duty both to approve all tariff acts before they become law, and to recommend to Congress, should he so desire, changes in the existing law.

One result of a Tariff Commission would be the ability to have in the United States a tariff law in which the duties should be specific. This would aid greatly the proper administration of the tariff and the knowledge of both the American producer and the foreign importer as to what the law really means, and what it spells in dollars and cents as to the duties which it levies. That a tariff made up of specific duties is the proper one for any large commercial country, there should be no question. The system of *ad valorem* duties is based on a wrong principle, and its proper administration is almost impossible. From a protectionist standpoint it is a very faulty thing. When the amount of duty depends upon the market or selling price, it creates a condition of affairs in which, when prices are high and the American manufacturer needs less duty for protective purposes,

he receives the most protection; when prices are low and he needs as much duty as possible to prevent his being undersold, then he receives the least protection.

From an administrative standpoint, with *ad valorem* duties there is always the matter of under-valuation. At best this can only be reduced to a minimum, and to do even that requires the expenditure by the Government of a vast sum of money each year for purposes of inquiry and investigation. Other great commercial nations of the world have long ago reached the conclusion that the best customs duty from a national standpoint is the specific duty. The great barrier in the way of having such a system put into effect in the United States is the way in which our tariffs are now made. They are constructed in a rush and hurry by committees of Congress which have neither time nor opportunity nor expert knowledge sufficient to construct a tariff law based upon the scientific principles that specific duties make necessary. Therefore, it is the natural and the inevitable result that *ad valorem* duties are used because of the ease with which they can be assessed by the tariff makers. A Tariff Commission, with its knowledge and its force of experts, could be utilized by turning into specific duties, so far as possible, the wishes of Congressional committees regarding the different articles under a tariff law, and in this one particular could justify its existence.

With the question of a Tariff Commission arises the question of costs of production, and whether or not it is possible to obtain such. The experience of the Tariff Board was that, if proper co-operation is given by the American manufacturer, costs of production can be secured, so far as this country is concerned, and it was also its experience that a great many foreign costs can be obtained through similar co-operation by manufacturers across the water. The Board did not delude itself, however, into the belief that a mere statistical knowledge of comparative costs of production is an all-sufficient basis for a tariff judgment. To all figures of production costs there must be applied common sense and practical business judgment. Conditions of competition in the different industries must also be considered, and the fact that the question of prices is oftentimes more fundamental than the question of costs.

Remembering, however, that tariff rates are in any case merely rough approximations, there can be gathered a fund

of information in regard to the production and cost of articles here and abroad that would be of immense value to any body of men entrusted with the framing of a tariff law. There are innumerable articles, of course, concerning which cost of production, even if it could be known, would be of little value in drawing up a system of tariff duties. But there are many articles, standard both in quality and in world-wide use, in regard to which production-cost figures could be obtained that would go far towards showing the practical difference between manufacture here and abroad, and the conditions surrounding it.

Another line of work which a Tariff Commission could profitably follow would be to root out the inconsistencies and the little annoyances that creep into any American tariff law. It is impossible for any committee to be watchful and careful on all points; and during the making of a law so complicated, and covering so many branches of human activity as a tariff law, there are many things which creep in unobserved, and whose presence is not discovered until the law is in active operation. The result generally is a multitude of contradictions and inconsistencies. These are matters that are usually of little importance, except to the individual concerned. They are merely things that pester the individual and disgust him with the whole system of tariffs because of the one case in which the tariff shoe pinches him unjustly.

There are certain essentials that must be kept in mind in any Tariff Commission law, and in any organization of such a body. One of these is permanency. Its tenure of office must be such as to leave it untouched by any change of national administration. Unless this is the case, such a body will be weakened and handicapped both in its powers and in its work by uncertainty as to the perpetuation of such powers in the future. It must have a tenure strong enough to outlast the administration of a President not in sympathy with its efforts. One of the great values of a Tariff Commission would lie not in any report on any particular tariff act, nor any result of a particular inquiry or investigation, but in the permanent continuance of an unbiased study of industrial conditions from year to year. One great element to be avoided in the work of such a Commission is haste and hurry, and the leaving of ragged ends which lack of time does not permit to be incorporated into

the work in hand. No matter how formidable in result a report might be in connection with an investigation as regards a present or a proposed tariff, it would, after a short time, have an interest merely academic or historical, owing to changing conditions of industrial affairs. Such investigations would really serve their best purpose as the foundation for a continuous study of industrial changes year in and year out. It is, therefore, essential that for the success of any commission the tenure of office must be such as to make the members independent of the goodwill of any individual, and free from the influence or control of any political party.

Another essential element is the proper formation of the commission, and the practical appreciation of the fact that it is a business proposition and not one of theory. It should be realized that the tariff question is one of business and not of mathematics and, if a tariff commission is to be successful, and is to do work of genuine benefit, it must be kept out of the control of the theorist and the statistician. Both of these qualities are important enough in their own way, but they do not fit in with a work that deals with the business problems of the country. There are too many ways of using figures known to experts to make it safe to place entire guidance in the conclusions of a statistician, and both he and the mere theorist are too warped in mind, and not sufficiently susceptible to argument, to make them safe advisers in matters which vitally concern the business of a whole nation.

It is essential, too, that the Tariff Commission have the sympathy and goodwill of the manufacturing interests of the country. Without genuine aid on their part, a Tariff Commission will fall far short of doing its proper work. Any Tariff Commission should proceed on the principle that co-operation is better than compulsion. Without the co-operation of the manufacturers, no tariff body can obtain the real facts or make findings of real value. This was made plain in the work of the Tariff Board, and to this fact every member of the Board can bear witness. It was the willing assistance given to that body by the manufacturers of the country that enabled it to secure information necessary to its work. It is only by utilizing the knowledge and the experience of the manufacturer, the comprehensive knowledge that comes from years of training in industrial

life, that any body can secure the right perspective and the facts indispensable to the making of fair reports.

It was the experience of the Tariff Board that its most valuable help came from American manufacturers who of their own accord gave of their time and their trained knowledge to help the Board in its work. Information that comes from compulsion, and unwillingly, falls far short of accomplishing results. It is lacking in essential details that can be supplied only through the willingness of the manufacturer to co-operate with the investigating body. Testimony given under compulsion, though it may be accurate so far as it goes, is unwilling and half-hearted, and therefore incomplete. The whole truth can be much better ascertained by co-operation with fair-minded and public-spirited business men than by the exercise of legal powers of a compulsory nature. It must also be remembered that much of the information received must be held as confidential by any Tariff Commission, so far as details of private business are concerned, and that the most valuable kind of confidential information can be secured by personal and informal conferences which could not be obtained by the examination of witnesses under oath, or by any drastic power of inquisition given by law.

But a Tariff Commission has its pitfalls as well as its merits. It is always dangerous to have a commission of inquiry in existence to take up grievances. The fact that there is such a body to appeal to encourages complaint on the part of men who otherwise might be satisfied with conditions. The creation of any tribunal for the receipt of grievances and the investigation of their merits, tends to keep matters in a constant stir. In the case of a Tariff Commission, it would keep the producers of the country in continual apprehension of changes and the necessity of readjusting themselves to new conditions. As things go on today, the manufacturer knows in a general way how long an existing tariff will endure, and can govern himself accordingly. It is, of course, axiomatic that business can adjust itself to anything but uncertainty. Consequently, to many business people the creation of a Tariff Commission would mean that above their heads would always hang an industrial Sword of Damocles to keep them and their affairs in uncertainty.

There is also danger that a Tariff Commission might

get into its head the idea that it must constantly make recommendations for a change in order to justify its existence. Even if nothing serious were wrong there might still be the ambition to demonstrate industry and improvement by inquiries and investigations that might better be left alone.

There would be grave danger in the situation unless the duties and powers of the Tariff Commission were strictly defined by law. It is not enough to say that a commission shall be "non-partisan." What "non-partisan" means in relation to the tariff is something that I do not know. Everyone who has either studied the tariff question, or who has had experience in business, is "partisan" toward some one kind of tariff. The man who has no ideas of any kind as regards the tariff might be a non-partisan, and from that angle be fitted for a place on a commission, but he would be of no value to such a work. Therefore it must be assumed that the members of the Tariff Commission will be partisan, but sanely so. This means that their recommendations must be confined to the presentation of facts, and not extended to the giving of advice upon tariff matters in general.

There was proof of this in the work of the Tariff Board. In connection with the woolen schedule investigation, we conducted a very thorough inquiry into the cost of producing raw wool, not only in the United States but in all of the wool-producing countries. The results of that investigation were something that the Board, made up of members of both political parties, and of different tariff beliefs, could unite in presenting. We proved to the satisfaction of each member of the Board that the average wool grown in this country costs over nine cents a pound more to raise than does the wool of Australia, and that it costs twice as much to raise as the wool of South America. Upon such a statement of fact all the members of the Board could and did agree. If it had been necessary, however, to report to Congress what recommendation the Board should make as to tariff duties on wool, there would have been a complete division in the Board, and two conflicting reports.

There would have been a report from some members stating that wool was so important an article to the country's growth and existence that it was necessary so to protect the wool-grower that he could at all times turn with

profit his attention to the raising of sheep, and that he should have sufficient protection from wool raised in other countries, no matter how great that protection must be. On the other hand, other members of the Board would have reported that the difference in the cost of the production of wool here and abroad was so great that, in order to give complete tariff protection, so high a duty was necessary as to involve a bad economic policy; that there was a limit beyond which duties should not go, no matter what the apparent necessity of an American industry; that any industry that required for its protection a duty beyond a certain point was an industry not fitted to the country, and too artificial a one to be part of the country's necessities; therefore, as wool could not be protected without an enormous duty, it would be well to put it on the free list. Agreeing, as we all did, on the facts in the case, those would have been the divergent opinions we would have expressed if called upon to report to Congress our recommendations in regard to the proper duty on wool.

Such would be the case in any Tariff Commission when faced with a similar problem. Any fair-minded commission can be a non-partisan commission, so far as facts are concerned; but when asked for recommendations as to what tariff policy should be pursued, the members will naturally and inevitably divide, and the line of cleavage will follow the tariff ideas of which the members are respectively the partisans.

One important question to answer in all of the discussion regarding the formation of a Tariff Commission is this: Is the creation of such a body worth while? The reason for doubt on this point does not imply that the Commission cannot secure real results, or that its investigations and reports will not be of value. Further, there is still the question whether, when these results are obtained, and these reports made, they will be acted upon, and whether they will be put to practical use by the lawmakers of the nation. Those who entertain such doubts point to the lack of result that followed the work of the Tariff Board so far as legislation was concerned.

There is, of course, no question as to the fact that, so far as immediate legislation was concerned, the work of the Tariff Board was a mere prologue without a play. The fruits of its investigations were spurned by the men who

were framing tariff bills in Congress, and deliberately so. This, however, was the result rather of political policy than of anything else. The majority party in the House of Representatives had taken the position that it cared nothing for the differences in costs of production here and abroad, and for such other inquiries as the Tariff Board was making, since a tariff law was to be framed upon other lines entirely, and that, furthermore, they took no stock in the Tariff Board idea.

Before any such legislation was definitely planned or projected, President Taft invited Mr. Underwood and the members of the Tariff Board to an evening conference at the White House. At this meeting the President formally tendered the services of the Tariff Board to Mr. Underwood, as Chairman of the Ways and Means Committee, for any tariff inquiry or assistance that the Committee desired. At this time the Board was at least bi-partisan, if not non-partisan, and made up of representatives of both political parties. There was a marked lack of enthusiasm on the part of Mr. Underwood, as he acknowledged this offer from the President, and he carefully refrained from making any promises as to the proffered services. As a matter of fact, there was no attempt at concealment on his part as to what his views were regarding a Tariff Board, and regarding the intention of the Ways and Means Committee to do their work unassisted and unhindered by any tariff body. So, instead of being on a basis of co-operation, the Ways and Means Committee and the Tariff Board revolved in different orbits, and, instead of paying heed to the Board's reports, the Ways and Means Committee used much of its energy in an endeavor to discredit them. If that is to be the case with the work of a Tariff Commission, and if the result of its inquiries are to be set aside as of no practical value for legislation, then there is serious doubt as to whether the establishment of such a body is worth the effort and the expenditure.

The fact that the Tariff Commission idea is very popular in the country does not necessarily mean that, after it is established, there would be equal approval of it and of its work. It is natural that before legislation is passed, everyone supposes that the project which he favors will be framed into law in accordance with his own views. Thomas B. Reed spoke truth when he said that "an un-

written tariff fits every district." Thus, an unwritten Tariff Commission law fits the approval of everyone desiring such legislation.

Much of the failure or success of a Tariff Commission would depend upon its membership, and fully as much upon its conduct of its own duties. There are two elements in American life that it must satisfy as to its efficiency and fairmindedness. These are the American producers, and the members of Congress. Unless it appeals to the producer, so that he will be willing to co-operate in the gathering of information and to aid by putting at the disposal of the Commission the knowledge gained by his own experience in different types of American industry, it will be impossible for the Commission to make its inquiries effective, and so it will fail to achieve success. Even if it has such co-operation, and with the helping hand of American industry succeeds in getting real facts into its reports, these reports will be of only academic value unless Congress believes in them and enacts them into law. If these two factors of the problem can be worked out satisfactorily, there is a real field for a Tariff Commission, and such a body can secure both in this country and abroad such information, both in quality and in quantity, as will make a Tariff Commission a permanent Government factor and a potent tariff-making force.

JAMES B. REYNOLDS.